

CITY OF DURHAM CITIZENS' FINANCIAL REPORT

For the fiscal year ended June 30, 2005



LETTER FROM THE CITY MANAGER



To the Citizens of the City of Durham:

I am pleased to present the Citizens' Financial Report for the City of Durham for the fiscal year ended June 30, 2005. Last year's report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association. The purpose of this report is to provide an overview of the City's financial condition and a summary of the City's progress during the past fiscal year. This report summarizes and simplifies the presentation of information contained in the City's Comprehensive Annual Financial Report (CAFR) and portions of this report are taken from financial statements that are contained in the CAFR. For more detailed financial information, I encourage you to contact the City's Finance Department at the address listed on the back cover of this report to obtain a copy of the CAFR or to visit the City's Web site at www.durhamnc.gov.

Organizational Vision

Good things are happening in Durham, and more excitement is on the horizon. All around the City, one can sense this excitement; today, to work in Durham means to work in a city where people feel excited and inspired. This means not only being in a great city, but being in an environment where greatness can take on a new shape.

During my tenure as City Manager, I've noticed three trends with regard to the City and its employees. First, there has been an increase in the level of pride people take in both this city and in their jobs. It's one thing to have pride in your own job, but when you have pride in your city you begin to celebrate all achievements even if your department was not directly responsible for a particular project. More and more, employees are beginning to realize that our jobs are not about any one of us individually. We don't live and work in a vacuum. Everyone contributes to the overall image of Durham, and our work is about all of us.

Second, our employees are demonstrating greater competence and confidence both on and off the job. During the past year, through programs such as the Executive Leadership Institute and the Management Academy, we have developed our internal leadership capabilities. I've capitalized on this training and our added strengths by fully empowering the City's staff to carry out their responsibilities, since they hold the expertise to help make Durham great.

Third, there is an increased level of professionalism in and around City Hall. First and foremost, we are a professional staff. A professional embodies all the above attributes that I've already mentioned as well as the City's seven organizational values (Integrity, Customer Service, Teamwork, Leadership, Open Communication, Fairness, and Our Employees).

City Manager's Priorities

It has become a commonplace of American political life: Government should be run like a business. The idea has clear appeal. To survive, business must be efficient and effective. It can't waste money, and it has to deliver on promises.

What are my priorities in order to ensure that City government runs as well as the best run business? First, I am stressing a return to the basics. I believe that excellence can be found in doing ordinary

things extraordinarily well, and toward that end I am enhancing core services and allocating time and resources to core functions. Moving forward, this will continue to be a priority that will shape future budgets. By managing and measuring basic projects correctly, not only are we exemplifying the ideals spelled out in our Results Based Accountability initiative, but also we are building the public's confidence in the city's ability to deliver on key issues and services.

Second, following the lead of the best run businesses, I am taking steps to instill a results based culture. In order to accomplish this, I have launched numerous initiatives. For example, "pay for performance" is one way to help ensure that we are correctly aligning pay and results. In addition, we have created a community report card which continuously monitors progress towards various outcome areas, and we have taken numerous surveys of both citizens and employees in order to answer the question, "How are we doing?"

Third, I want to foster more effective relationships with City Council, the community and our employees. I believe that government is a contact sport – by that I mean you have to make contact in order to succeed. I also believe that a leader's emotions are contagious. If a leader resonates energy and enthusiasm, an organization thrives; if a leader spreads negativity and dissonance, it flounders. That's why every day I do my best to spread my heartfelt conviction that Durham will soon be the best run City in the South as well as a great place to live and work. We've made progress but there's still room to grow.

Thank you for taking the time to read the Citizens' Financial Report. It is our intention to provide information that is useful to you to understand the City's financial condition. We appreciate any feedback you may have about this report. Please address your comments to either me or to the City's Finance Department at the address listed on the back cover.

Sincerely,

Patrick W. Baker

Patrick W. Baker
City Manager



THE CITY OF DURHAM'S BUDGET

The 2005-06 Budget supports the priorities identified by City Council: promoting public safety, economic development, beautifying our City and neighborhoods, maintaining the City's buildings and facilities and fiscal accountability. The single most important issue raised by City Council and Durham residents is crime reduction. By providing competitive salaries and new equipment, we have made every effort to ensure that the Police Department, the Emergency Communications 911 call center, and the Fire Department are prepared to keep the City and its residents safe. Our citizens have also made it clear that they are interested in citywide economic development, job creation, the support of their neighborhoods and the maintenance of City streets, parks and buildings.



Budget Highlights

The state's past fiscal problems, a sluggish economy, and a heavy reliance in prior years on one-time funds have made this another difficult budget year. This year's budget represents the crucial next step along a path to correct structural deficiencies in the budget that have developed over several years. Like many communities throughout the nation, Durham faces a multitude of needs – some new, due to a growing population and some that are the result of decaying public infrastructure neglected in times of budget stress. The FY 2005-06 Budget takes a major step toward repairing and upgrading public infrastructure while providing additional funding for public safety, including \$1.3 million for the Police Department budget to assist in recruiting and retaining an experienced work force.

The City of Durham's annual budget process is the framework for communicating major policy objectives and for allocating resources to achieve them. It is a complex undertaking involving not only the whole government, but the various stake-holders in the City, who participate through "Coffees with Council" budget hearings and other community meetings.

Once the budget is approved, the focus of the budget is upon control. Ongoing monitoring of expenditures and revenues throughout the year is a responsibility shared by department heads and the Budget Department. The Accounting Services Division ensures that changes are correctly entered and payments are appropriate.

The City has received the Distinguished Budget Presentation Award from the Government Finance Officers Association for 17 consecutive years. The City's annual budget document is available on the City's Web site, www.durhamnc.gov.

Major Appropriations Funded in the Budget Year Ended June 30 (Amounts in Millions)

Budget Ordinance	Adopted FY 2004-05	Adopted FY 2005-06
Public Protection	\$59.9	\$61.2
Community Services and Development	44.6	49.2
Administrative and Support Services	28.8	28.9
Governance	6.9	7.5
Non-Assigned	29.3	29.1
Total General Fund	\$169.5	\$175.9

Measuring Our Progress: Community-Wide Results Based Accountability Project

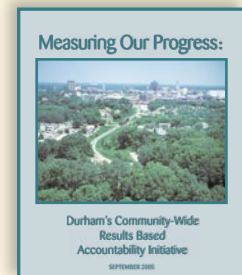
At the end of every day, most of us ask ourselves, "What did I accomplish?" That's the question City and County government officials and employees are starting to ask ourselves. "What have we accomplished to make lives better for our citizens?"

To help provide those answers, the Durham City and the County governments recently adopted eight goals – or priority outcomes – for our community. Working together, we established community work-groups committed to improving our community in different areas. Members of these groups worked side by side to determine how best to measure, achieve and share success in areas that contribute to a better quality of life for us all.

After measuring our progress in these areas over time, the results have been incorporated into an annual Community Report Card to keep Durham's residents informed of our efforts to make positive, accountable change. Our priorities in this first report card include making sure that:

- Children are ready for and succeeding in school
- Durham citizens enjoy a healthy environment
- Durham citizens enjoy a community that is vibrant, rich in aesthetic beauty and embraces and promotes its cultural heritage
- Every citizen in Durham has access to adequate, safe and affordable housing
- Durham enjoys a prosperous economy
- Durham citizens are healthy
- All Durham citizens are safe
- Durham citizens enjoy sustainable thriving neighborhoods with efficient and well-maintained infrastructure

Copies of Durham's first Community Report Card "Measuring Our Progress: Durham's Community-Wide Results Based Accountability Initiative" are available from the City Manager's Office (phone 560-4222). The report card is also available on the City's Web site: www.durhamnc.gov.



ACCOLADES AND AWARDS

2005 Durham Accolades

CNN Money — 2005 July

Durham ranked one of the nation's 100 Best Places to Live 2005.

Expansion Management — 2005 July

The Durham MSA, one of the Top 20 nationwide for business opportunity.

Business 2.0 — 2004 March

Raleigh-Durham-Chapel Hill region ranked #1 as top 20 "boom towns [regions]" for job markets.

Forbes — 2005 May

The Raleigh-Durham-Chapel Hill area — #2 best place for business and careers.

Center for Women's Business Research — 2004 Sept.

The Research Triangle region ranks fourth nationally in the growth rate of businesses that are 50 percent or more women-owned.

Urban Land Institute — 2005 Aug.

Downtown Durham revitalization, one of 10 projects nationwide highlighted in the Urban Land Institute's "Ten Principles for Successful Public/Private Partnerships."

Entrepreneur Magazine — 2005 Sept.

Durham County, #18 in list of Top Small Counties for Entrepreneurs. Area also placed 15th for young companies and 38th in rapid growth. 682 counties were ranked in this category.

2005 City Council



Front row (from left) are Cora Cole-McFadden, Mayor William V. Bell, Diane Catotti. Back row (from left) are John P. Best Jr., Howard Clement III, Eugene A. Brown, Thomas A. Stith III.



Entrepreneur Magazine — 2005 Sept.

Raleigh-Durham-Chapel Hill, #3 on list of "Hot Cities for Entrepreneurs." Area also placed #2 for young companies and #3 for rapid growth.

Fast Company — 2005 Nov.

The Research Triangle area was noted for having the highest patent-growth rate (17.5%) and largest creative-class community (40%) among the ten U.S. cities in the magazine's 15 Hot Cities for Creative Types.

The Wall Street Journal — 2005 Sept.

Duke's Fuqua Business School, #17 in WSJ's 2006 World's Best Business Schools.

National Policy Research Council — 2005 Oct.

Raleigh-Durham-Chapel Hill ranked 3rd of the best large metro areas for entrepreneurs and business.

Intel — 2005 June

Raleigh-Durham-Chapel Hill — #8 on list of America's Most Unwired Cities.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) once again recognized the City for the quality of its Comprehensive Annual Financial Report issued for the previous fiscal year. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting practices and accepted legal requirements. This Certificate of Achievement for Excellence in Financial Reporting marks the 20th consecutive year and the 24th time in 26 years that the City has been so honored. In addition, last year's Citizens' Financial Report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**CITY OF DURHAM,
NORTH CAROLINA**

for the Fiscal Year Ended
June 30, 2004



Nancy L. Ziegler
President
Jeffrey L. Esser
Executive Director

TAXES

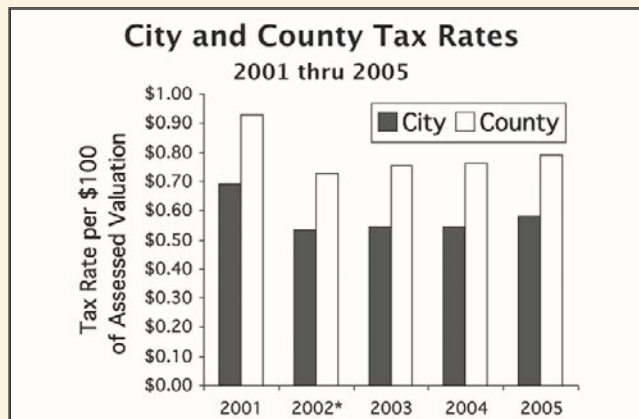
Property Taxes

Fifty-five percent of the City's General Fund (the City's primary operating account) revenues for the fiscal year ended June 30, 2005, came from property taxes. The percentage of revenues generated through property taxation has remained relatively stable for the past ten years ranging from a high of 55.5 percent in 2002 to a low of 51.3 percent in 1997.

City and County Tax Rates

City tax payers pay both a city property tax and a county property tax on a combined bill. For FY05-06 the city tax rate is \$0.583, while the county rate is \$0.809, for a combined rate of \$1.392. The tax rate is expressed per \$100 of assessed value. To calculate the tax on a property with an assessed value of \$140,000 you would multiply the tax rate times the assessed value and divide by 100, as shown below:

City Tax	$\$0.583 \times 140,000/100 = \$$	816.20
County Tax	$\$0.809 \times 140,000/100 = \$$	1,132.60
Total Tax		\$1,948.80

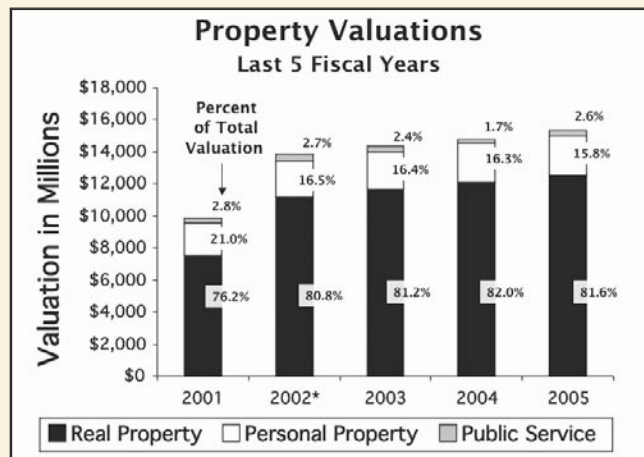


Annual Independent Financial Audit

North Carolina State Statutes require that an annual audit be performed by an independent certified public accountant. This annual audit relates to the City's Comprehensive Annual Financial Report (CAFR), and the purpose of the annual audit is to ensure that the City is complying with generally accepted accounting practices (GAAP). In addition to meeting statutory requirements, the audit also complies with the Federal Single Audit Act, Office of Management and Budget Circular A-133 and NCGS 159-34 (Single Audit Implementation Act). As it has in previous years, this year's Independent Auditor's Report confirms that the City's financial statements "present fairly, in all material respects, the respective financial position" of the City of Durham. All financial statement information contained in the Citizens' Financial Report is in conformity with GAAP; portions of the information in this report are taken from financial statements that are contained in the city's CAFR. For more detailed financial information as well as the full set of notes that accompany the financial statements, visit the City's Web site at www.durhamnc.gov.

Property Valuations

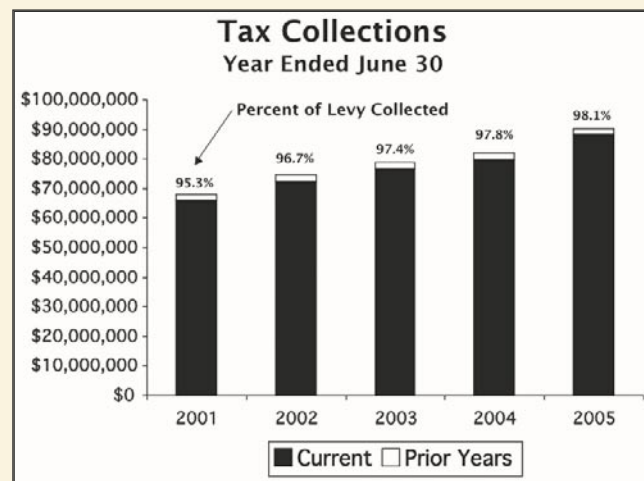
Valuation of property for the purpose of tax assessment is a function of county government. Generally, in North Carolina, the value of property in the county is set every eight years through a reappraisal (revaluation) process. The last reappraisal for Durham County was Jan. 1, 2001. That means that all property is assessed at 100 percent of market value as of Jan. 1, 2001 until the next reappraisal. The Board of County Commissioners has set the effective date for the next general reappraisal for Jan. 1, 2008. The reappraisal period is being reduced from eight years to seven years in order to reduce inequities created by fluctuations in the market between reappraisal dates.



Tax Collections

City property taxes are collected by Durham County under an interlocal agreement. The tax collection performance has improved considerably in the past five years, from a low of 95.28 percent in FY2000-01 to 98.06 percent for FY2004-05. This brings City tax collections on par with other large Cities in the State.

** Note: In the charts above, below and left, revaluation of taxable property occurred Jan. 1, 2002, of the tax year.*



DEBT ADMINISTRATION

Credit Ratings

Credit ratings represent objective third party opinions concerning an entity's ability to meet its financial commitments. The City of Durham's credit rating listed below represent the highest given for general obligation debt:

- Moody's Aaa
- Standard and Poor's AAA
- Fitch AAA

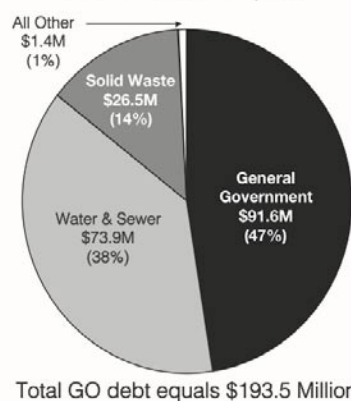
Durham is one of fewer than thirty cities in the nation to achieve the highest debt rating from all three rating agencies. High credit ratings affirm a belief and confidence in the City's sound fiscal management, and allow the City to issue debt at lower interest rates, which translates into savings for City taxpayers.

General Obligation Bonds

The City is permitted to issue general obligation bonds that provide long term financing for projects for which the City pledges its full faith and credit to repay the debt.

North Carolina General Statutes limit the amount of debt that a unit of government can issue to eight percent of the total assessed value of the taxable property located within that government's boundaries. Currently, the City has issued, or is permitted to issue \$290,916,931 in debt, leaving an unissued capacity of \$935,087,018, or an unissued debt margin of 76 percent.

Issued General Obligation Debt By Category
Year Ended June 30, 2005



New Debt Issues

In June 2005, the City issued \$35,790,000 in Certificates of Participation (COPs) to provide funds for municipal building renovation and construction, public safety equipment and vehicles, and other city improvements.

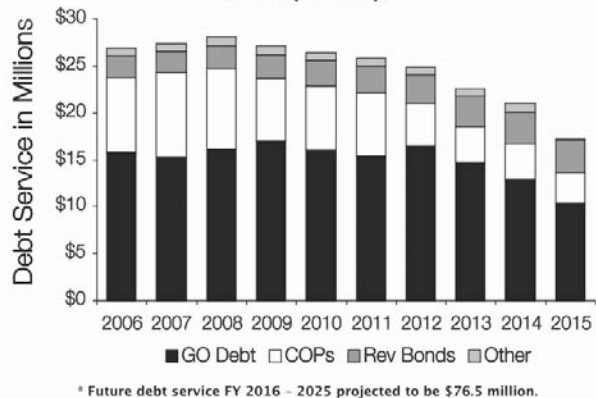
Debt Capacity

In addition to the legal debt margin explained earlier, the City tracks several other benchmarks that provide guidance in determining how much debt the city can afford. Two of these measures are per capita debt and the ratio of debt to assessed valuation. The movement of these benchmarks over the last five years is illustrated in the chart at right.

Other Types of Debt

In addition to general obligation bonds, the City has categories of debt that are not tax supported. Revenue bonds are pledged by the net revenues from the facility financed by the bonds, such as a utility system. At June 30, 2005, the City had \$42,060,000 outstanding in revenue bonds. COPs are installment purchase agreements that pledge the value of the bonded asset to the buyers. At June 30, 2005, the City had \$79,395,000 outstanding COPs.

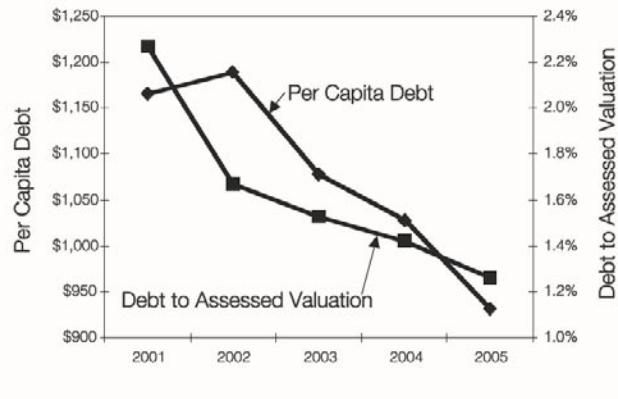
Future Debt Service
(Principal Only)



Online Capital Project Status Report

On Oct. 3, 2005, the City of Durham introduced a new tool that citizens and other interested parties can use to monitor the progress on more than 200 City capital projects. The system, developed by the City's Technology Solutions Department (TSD), will allow visitors to the City web site to view a variety of information about ongoing and planned City capital improvement projects ranging from park renovations to street paving. In addition to descriptions of the project scope and financial details, the site will provide an estimated date of completion and a quarterly status report by the project manager. Most of the

Per Capita Debt and Debt to Assessed Valuation
Last Five Fiscal Years



projects also have a link to the City's Geographic Information System (GIS) which provides a street map highlighting the project location. For those that would like additional information about specific projects, an e-mail link is available to contact the project manager directly.

Swap Transactions

Over-the-counter debt derivatives, such as swaps and caps, have for decades been used as hedges in the capital markets, but appreciably by municipal issuers only in the last several years. In addition to providing opportunities for hedging financial risks and potentially generating interest cost savings, derivative instruments may present significant risks of loss. These risks require issuers to use great diligence and caution in contemplating derivative transactions.

In December 2004, City Council approved a swap policy governing the City's use of derivative financial products and subsequently after an extensive review process approved a Synthetic Fixed Rate Refinancing Interest Rate Swap. The independent rating agency Standard & Poor's (S&P) assessed the City's proposed transaction and assigned it a score of one on a scale ranging from one through five. One represents the lowest risk. As of Nov. 30, 2005, the City has not executed this transaction due to unfavorable market conditions.

Future Debt

In late September 2005, the City issued approximately \$25,000,000 in general obligation bonds to provide funds for housing improvements, street improvements, parks and recreational facilities, municipal buildings, sanitary and sewer improvements, and public safety communication equipment.

In November 2005, the City issued \$23,545,000 in general obligation refunding bonds and \$18,605,000 in water and sewer revenue refunding bonds. The general obligation bonds were sold with an interest cost of 4.26 percent, saving taxpayers \$1.02 million in debt service payments over the life of the bonds. The revenue bonds were sold at a cost of 4.3 percent, with savings of \$472,410 over the life of the bonds.

During the past three years, the City has taken advantage of historically low interest rates by refunding (refinancing) outstanding debt issues to reduce annual debt service costs. Including the refundings mentioned above, since FY2003-04 the City has executed five refundings resulting in debt service savings of \$7.1 million.

FRAUD HOTLINE

The City of Durham's Audit Services Department has an "online hotline" to help ensure fiscal responsibility and accountability throughout the City organization. Any person may file an anonymous or confidential report to disclose alleged fraud, waste, or abuse of City property and resources. A Fraud/Waste/Abuse Information Report form is available online at www.ci.durham.nc.us/departments/audit/fraud.cfm. Your name and e-mail address will not appear anywhere on the report unless you complete the confidential information section. A report can also be made by calling the Audit Services Department at 560-4213 during regular business hours, 8:30 a.m. to 5 p.m. Monday through Friday.



On Nov. 8, 2005, voters approved a \$110 million General Obligation Bond Referendum package. The bonds were authorized for the following purposes:

■ Parks & Recreation	\$38,333,000
■ Water and Sewer Improvements	\$20,000,000
■ Streets and Sidewalks	\$18,512,000
■ Cultural Facilities	\$11,005,000
■ Parking	\$7,342,000
■ Public Improvements	\$7,113,000
■ Public Safety	\$6,195,000
■ Neighborhood Improvements	\$1,500,000

Currently the City has bonds outstanding and unissued under the 1996 General Obligation Bond Referendum authority in the amount of \$11.772 million. These bonds, which must be issued prior to November 2007 are for the following projects:

■ Streets	\$4,868,000
■ Housing	\$4,786,000
■ Public Transportation	\$1,715,000
■ Parks and Recreation	\$403,000



GOOD THINGS ARE HAPPENING IN DURHAM...

- Thousands of Durham residents have been enjoying the American Tobacco Historic District, the largest historic preservation project in the history of North Carolina. It has become a regional destination for jobs and entertainment.
- City Council approved a new 2,800 seat performance theater to be located adjacent to American Tobacco and the Durham Bulls Athletic Park. Durham will soon boast a thriving "Theater District."
- A \$10.5 million streetscape project is under construction with new streets, sidewalks, lighting and signage.
- A \$110 million bond initiative was approved by Durham voters in November to fund much-needed delayed maintenance on City assets.
- City Council approved the West Village II project to renovate the Liggett and Myers complex as well as redevelopment of the old Woolworth property on Parrish Street.
- Black Wall Street's (Parrish Street) interpretive plan vision was approved. The first installation of the "museum without walls" will occur in 2006.



- The Cultural Master Plan is being implemented in one of the country's most creative places – thanks to Durham artists.
- The Farmers Market is fully funded, due, in large part, to a dedicated group of volunteers.
- The East Main Street Hope VI project continues to make progress, providing well-designed housing for Durham's residents.
- Opened the Nasher Museum of Art, one of 30 Durham visitor related product developments in 10 years and one of a dozen in the next 12 months.



- Business development announcements come at a Associates, Inc., and the American Institute of Certified Financial Planners.
- North Carolina Central University added a new building to the City and the neighborhood to improve Fayetteville Street.
- Northgate Mall, locally owned and operated, is finishing up its renovation.
- Measurement, Inc., completed renovations of the City's largest building, providing a large amount of recreated commercial and residential space.
- The County's Center for Senior Life nears construction.
- The Workforce Development Strategic Plan was approved. Durham residents were helped with workforce development.
- The City completed a neighborhood economic development study. Central Durham is a primary focus.
- Forty-three small businesses expanded or began operations and its partners.
- Population continues to grow at a very healthy pace.
- Both the City and County tax base continue to grow.
- The value of construction taking place this year was \$1.2 billion.
- The number of permits increased by seven percent.
- The number of new construction permits maintained a 47 percent commercial.
- Per capita retail sales continued a strong increase, up 10 percent.
- Durham's downtown continued an extensive renovation of commercial and residential units available.
- During its 15 years of development as a destination for visitors, reaping a 242 percent increase in annual visitation compared with 176 percent statewide and 182 percent for the region.
- A sample of 500 Durham residents ranks its perspective as positive.

Szostak Design Inc.



rapid pace with firms like Motricity, Smith Breeden & Co. and other Certified Public Accountants now calling Durham home. The new west campus and is working extensively with the City on the new Street.

finishing an impressive renovation.

the historic Imperial Building, adding to the impressive space now coming online in Durham's downtown.

ion completion with its grand opening expected soon.

approved and is now being implemented; 780 development programs this year.

development to help guide redevelopment. Northeast

operations in Durham with the assistance of the City

ace.

grow and remain diversified.

was at its highest ever: \$897 million.

nt over 2004.

ained a very healthy ratio of 53 percent residential,

outpacing neighboring counties.

assistance with significantly more leasable office space

on, Durham outperformed state and peer group average generated local sales and occupancy tax revenue percent for peer counties.

onality highest in friendliness and diversity.



■ Durham's attractions (sporting venues, historic attractions, museums, performing arts venues and festivals) attracted 2.9 percent more visitors in 2005 than 2004.

■ Durham continues to maintain a low cost of living in line with the national average overall, and 10 percent less than the national average in housing.

■ Durham's violent crime rate shows a dramatic and steady downward trend over the past five years. The total crime index has also gone down significantly.

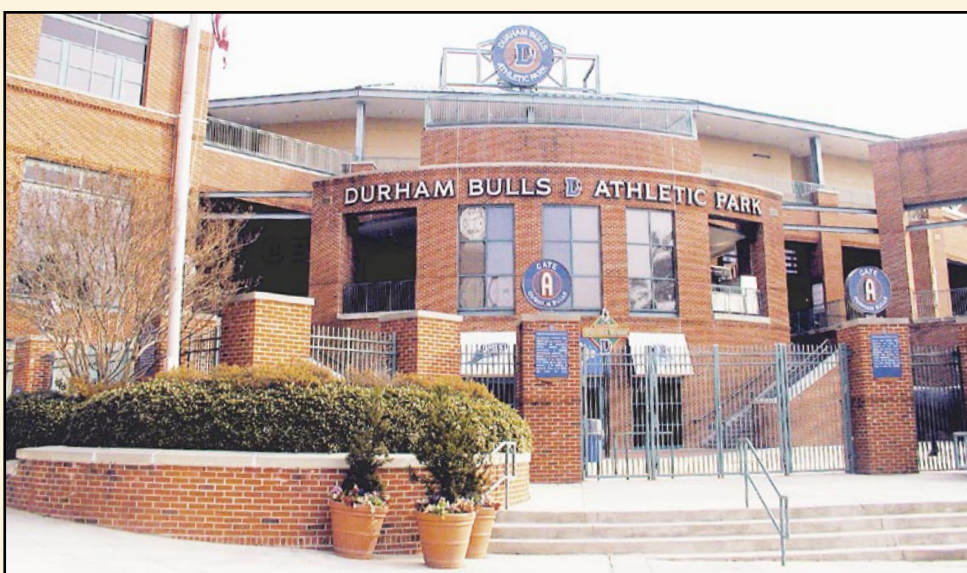
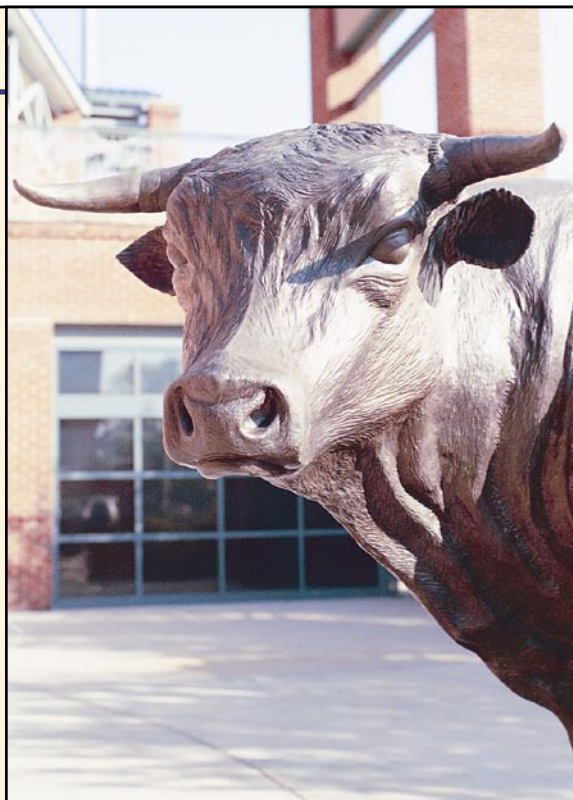
■ Durham Public Schools test scores for grades 3–8 have risen 20 percent over the past nine years; third grade math and reading scores have increased by 19.8 percent and Advanced Placement scores for college have rocketed from a low of 48 percent to a high of 70 percent — far outpacing the state and nation.

■ Durham's higher education institutions continue to have an enormous positive economic impact on the City.

■ More workers are employed in Durham than ever before; but there is a widening polarization of wages.

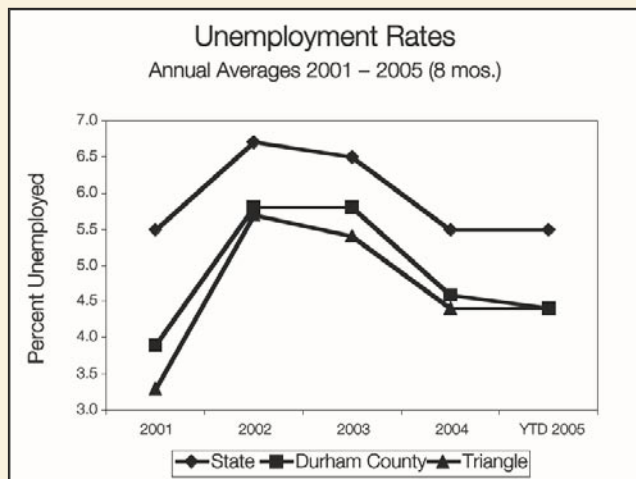
■ Among the region's 13 counties, Durham ranked first in job growth and first in capital investment in 2004.

■ Durham's unemployment rate remained lower than the state's rate.

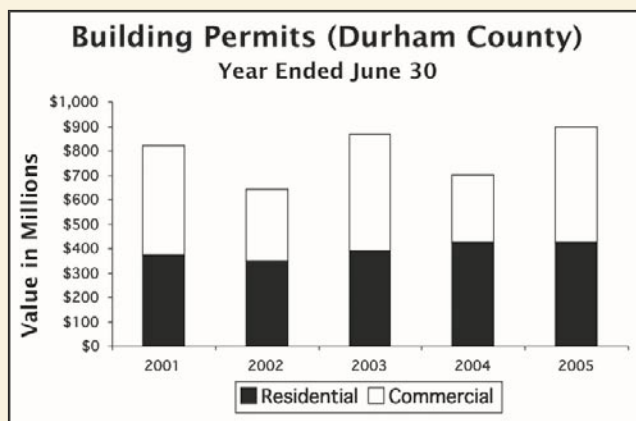


DURHAM ECONOMIC OVERVIEW 2005

Durham continued to show economic growth in 2005 despite turbulent conditions in the national economy. The main factors dictating the economy this year were rising short term interest rates, skyrocketing energy costs and the hurricanes. All three factors had an adverse effect on the employment market as many companies deferred hiring until conditions became clearer. Durham was able to withstand the volatile employment market (see chart below) due to its industrial diversity and saw unemployment of 4.4 percent compared to a state level of 5.5 percent and a national level of 5.0 percent.

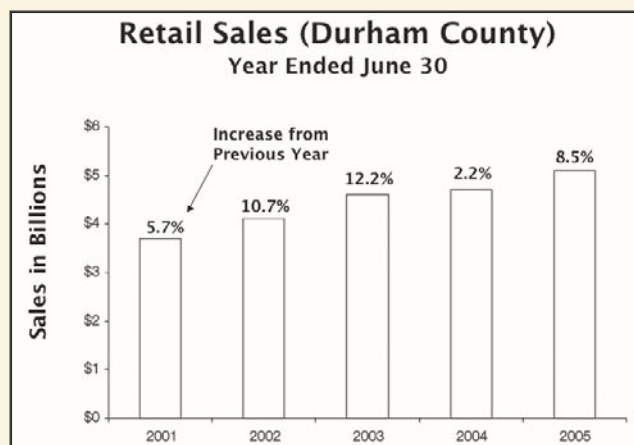


Construction within the City saw healthy growth (see chart below) despite interest rate pressure. Commercial permits increased 10 percent, with a permit value increase of over 40 percent. Residential permits declined by 23 percent, however, permit value increased by one percent from the previous year. In the second half of 2005, the national housing market began to show signs of slowing. Public homebuilding companies stated weaker forecasts and housing starts fell short of estimates.

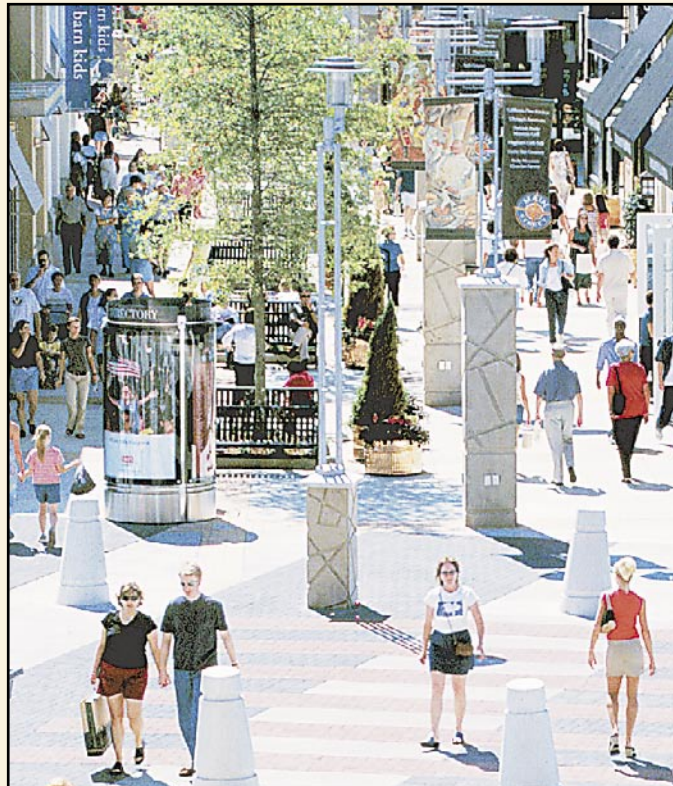


Retail sales out-performed surrounding cities on per capita spending and continued to gain market share (see chart above right). Additional development in the Southpoint area (pictured right) has made the shopping district even more formidable against retail competition

in surrounding cities. Forecasts for healthy spending in the 2005 holiday season should prove beneficial for City sales tax revenue.



In 2005, the City completed two bond refundings that produced \$1.5 million in net present value debt service cost savings. Since FY2003 the City has capitalized on historically low long term interest rates by refunding (refinancing) large portions of its outstanding debt, generating total savings in excess of \$7 million. Also, this November the citizens of Durham voted in favor of \$110 million of general obligation bonds that will be used toward constructing and improving City infrastructure and public facilities.



DOWNTOWN DEVELOPMENT

The entire downtown area of Durham is in the midst of a redevelopment boom not seen since the 1920's. Historic renovation projects and new construction of office and housing development is at an all time high in downtown Durham. Redevelopment activities and new construction projects have been occurring in the vicinity since completion of the Downtown Durham Master Plan. The location of Research Triangle Park and Duke University within the City of Durham provides a strong employment base for the community. Downtown Durham is located within one mile of Duke University's East Campus and within five miles of the Research Triangle Park. Interstate 85 is less than two miles from downtown and access to Interstate 40 via Highway 147 (the Durham Freeway) is six blocks from the site. Raleigh Durham International Airport is located 15 miles from downtown Durham. Raleigh is located 20 miles southeast and only a 30 minute drive from downtown. Greensboro is located 50 miles to the west and only a 55 minute drive from downtown. Substantial development has occurred in the downtown and is proposed for the next few years, including:



- Design and development of streets and infrastructure in the downtown, including Main Street, Chapel Hill Street, Parrish Street and Corcoran Street. The total cost of street and sidewalk improvements in the downtown is estimated at over \$10 million.

- The creation of a true north-south corridor with the straightening of Blackwell/Corcoran/Foster Streets, connecting the historic Durham Athletic Park to the new Durham Bulls Athletic Park. Also included along this corridor is a new public plaza, providing

a dynamic public space for downtown events and gatherings.

- Blue Devil Ventures plans to renovate more than 900,000 square feet of space for residential, commercial and office uses. The projected cost is approximately \$148 million.

- The American Tobacco Campus, located at the south end of the north/south corridor, is a phased project that will include one million square feet of space at a cost of more than \$200 million. Currently, tenants include Duke University, Glaxo/Smith/Kline, McKinney & Silver, Square 1 Bank, Tyler's Tap Room, Starbucks and Symposium Café.

- The Durham Performing Arts Center is slated to open in the spring of 2008 across from the American Tobacco Campus. The 2,800-seat theater will bring events and cultural activities, including Broadway productions, to the downtown entertainment/theater district.

- Historic Parrish Street is undergoing an economic, as well as a physical, revitalization.

- A new streetscape combined with a proposed signature building of at least 75,000 square feet to be built on the corner of Corcoran and Parrish Streets are two significant features of a "new era" on Parrish Street. The Parrish Street Advocacy Group, composed of business and community leaders, is spearheading the efforts to attract new business and reflect the history of "Black Wall Street."

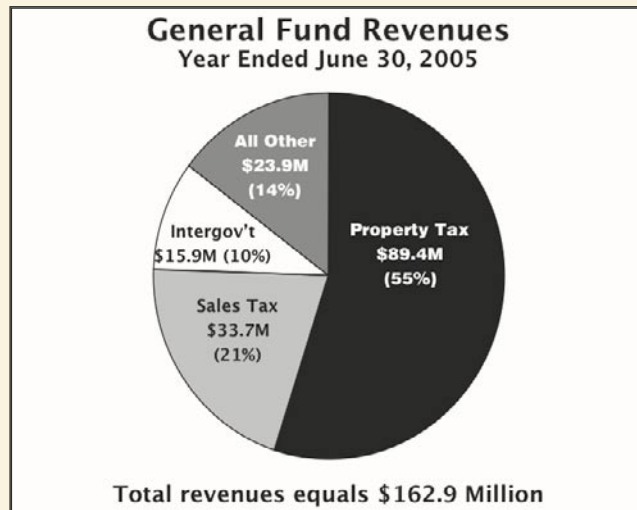


GENERAL FUND

The General Fund is the City's primary operating fund, and accounts for the revenue and expenditures associated with operating traditional local governmental services such as Police, Fire, and Parks and Recreation.

General Fund Revenues

For the fiscal year ended June 30, 2005, the General Fund total revenue totaled \$162.9 million (see chart below). The three largest sources of revenues are property tax, sales tax, and intergovernmental revenue.



Property Tax

The City's property tax is levied based on the full cash value of property from the previous calendar year as determined by the Durham County Tax Assessor, and the rate is established during the annual budget process. The City collected \$89.4 million in property taxes for the year ended June 30, 2005, exceeding prior year collections by \$8.6 million.

Sales Tax and Intergovernmental Revenue

Sales tax is levied on the sale, lease or rental of all taxable goods within Durham County. Purchasers of these goods and services pay the tax. Sales tax is collected by businesses at the time of sale and then paid monthly to the North Carolina Department of Revenue, Sales and Use Tax Division. The Department of Revenue remits that portion due the county and municipalities in the county based on a per capita formula.

The State levies a seven percent retail sales tax on all retail sales (except for food purchases that are consumed at home, which are taxed at two percent). Most services and prescription drugs are exempt from sales tax. Of the seven percent retail sales tax, the State retains 4.5 percent and returns 2.5 percent to local governments. Other local sales taxes include local option sales tax, gross receipts, and hotel/motel occupancy tax. Sales tax is an important revenue source for the city, representing 21 percent of General Fund revenue for FY 2004-05.

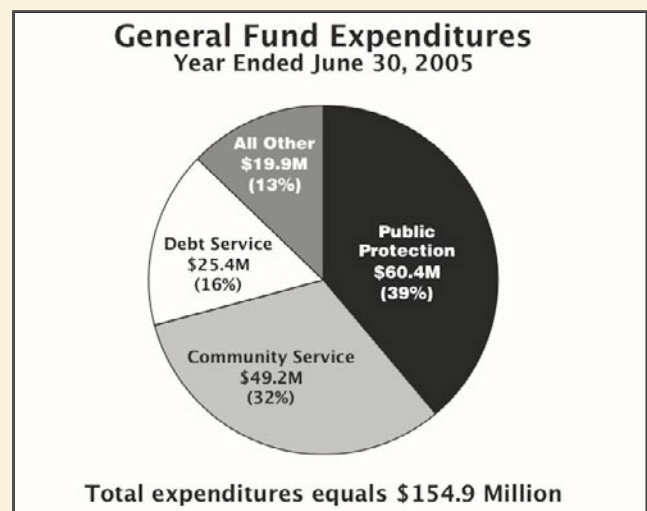
Total taxes collected represented about 76 percent of the City's total operating budget. The remaining revenues totaling approximately \$40 million came through licenses and permits, charges for services, inter-

and intra-governmental services, and other miscellaneous revenue.

General Fund Expenditures

Total expenditures for the fiscal year ended June 30, 2005, were \$154.9 million (see chart below), which was within the budgetary authority of \$169.5 million.

Public Protection expenditures of \$60.4 million represent the costs of providing both police and fire protection, and also include police and fire department equipment, street lighting, emergency management, and communications. The single most important issue raised by the City Council and Durham residents is crime reduction. The police department represents the largest portion of the public protection budget. The total expenditures for the police department were \$37.4 million (less transfers and other financing uses).



Community Services and Development expenditures of \$49.2 million represent the cost of promoting economic development and supporting neighborhoods to enhance the quality of community life in Durham. Our citizens have made it clear that they are interested in citywide economic development, job creation, and support of their neighborhoods. Community Services and Development is comprised of six departments: Planning, Inspections, Housing, Public Works, Parks and Recreation and Solid Waste Collections.

Debt Services expenditures were \$25.4 million. The City manages its long term financing needs through periodic issuance of general obligation bonds. Debt service expenditures include principal and interest payments on the City's outstanding bonded debt. In addition to general obligation bonds, the City issues revenue bonds and enters into installment sales/lease obligations as allowed under state statutes.

All Other expenditures of \$19.9 million include the following:

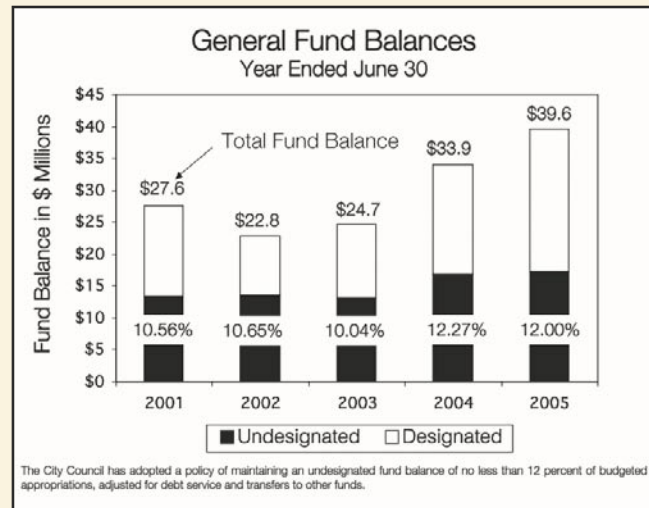
■ Administrative and Support Services expenditures of \$6.8 million represent the costs of providing financial and general and administrative services to the public. It is comprised of five departments: Human Resources, Human Relations, Technology Solutions, Finance and General Services.

■ Governance expenditures of \$4.9 million include all areas of the City involved in the administration and legislative aspects of conducting City business. It is comprised of eight departments: City Council, City Manager, City Attorney, City Clerk, Budget and Management Services, Audit Services, Equal Opportunity and Equity Assurance, and Economic and Employment Development.

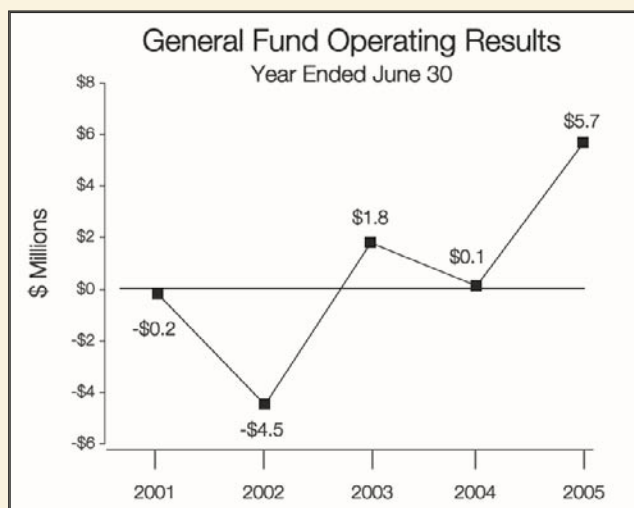
■ Other Financing Uses expenditures of \$8.2 million include transfers between funds for specific purposes.

Fund Balance

A key measure of the City's overall financial health is the fund balance. The fund balance is the undesignated reserve in the City's General Fund (see chart at right). The City Council has adopted a policy of maintaining an undesignated fund balance of no less than 12 percent of budgeted appropriations, adjusted for debt service and transfers to other funds. The FY 2005 undesignated fund balance is 12.00 percent of FY 2006 budgeted appropriations, a decrease of .27 percent below last year.



General Fund Operating Results	2001	2002	2003	2004	2005
Revenues	\$129,518,312	\$132,528,752	\$142,654,018	\$146,603,864	\$162,929,772
Other Financing Sources	2,703,696	2,700,375	18,963,888	6,875,880	8,944,446
Total Revenues	132,222,008	135,229,127	161,617,906	153,479,744	171,874,218
Expenditures	121,398,855	129,390,494	132,796,001	144,614,859	154,933,610
Other Financing Uses	11,043,963	10,303,548	27,008,270	8,761,732	11,277,730
Total Expenditures	132,442,818	139,694,042	159,804,271	153,376,591	166,211,340
Operating Results Over/(Under) <i>See chart below.</i>	(220,810)	(4,464,915)	1,813,635	103,153	5,662,878
Operating Results Revenues & Expenditures Only	\$8,119,457	\$3,138,258	\$9,858,017	\$1,989,005	\$7,996,162



STATEMENT OF NET ASSETS

(Year ended June 30, 2005)

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current assets			
Cash and cash equivalents/investments	\$ 67,087,694	\$ 81,860,051	\$ 148,947,745
Taxes receivable, net	3,229,444	47,442	3,276,886
Accounts receivable	2,875,024	11,641,131	14,516,155
Assessments receivable	309,653	1,366,046	1,675,699
Accrued investment income	462,570	466,935	929,505
Notes receivable	30,798,857	607,943	31,406,800
Due from governmental agencies	14,972,570	3,601,463	18,574,033
Inventories	456,777	667,916	1,124,693
Restricted cash and cash equivalents/ investments	30,026,762	410,263	30,437,025
Total current assets	150,219,351	100,669,190	250,888,541
Noncurrent assets:			
Capital assets:			
Land and other nondepreciable assets	34,906,953	45,052,919	79,959,872
Buildings, equipment and depreciable assets net of accumulated depreciation	175,660,891	235,184,091	410,844,982
Restricted cash and cash equivalents/ investments	1,652,542	5,891,192	7,543,734
Internal balances	(1,056,952)	1,056,952	-
Total noncurrent assets	211,163,434	287,185,154	498,348,588
Total assets	361,382,785	387,854,344	749,237,129
LIABILITIES			
Current liabilities			
Accounts payable	12,469,233	5,142,964	17,612,197
Accrued payroll	1,312,277	205,623	1,517,900
Employee taxes and related withholdings	1,435,948	-	1,435,948
Accrued interest	1,784,155	14,950,001	16,734,156
Deposits and payments held in escrow	1,404,471	863,751	2,268,222
Unearned income	3,926,880	124,372	4,051,252
Current portion of due to Durham County	-	830,000	830,000
Current portion of bonds payable	7,289,799	10,912,674	18,202,473
Current portion of due to the State of North Carolina	-	885,000	885,000
Current portion of certificates of participation	218,187	1,440,000	1,658,187
Current portion of pending claims	3,032,000	-	3,032,000
Total current liabilities	32,872,950	35,354,385	68,227,335
Noncurrent liabilities			
Minority interest in Civic Center	-	7,251,120	7,251,120
Due to Durham County	-	30,754,598	30,754,598
Bonds	87,156,976	133,539,976	220,696,952
Certificates of participation	68,604,035	9,663,353	78,267,388
Due to State of North Carolina	-	8,160,000	8,160,000
Accrued compensated absences	8,558,379	1,004,044	9,562,423
Post closing costs	-	7,232,602	7,232,602
Pending claims	2,919,177	-	2,919,177
Total noncurrent liabilities	167,238,567	197,605,693	364,844,260
Total liabilities	200,111,517	232,960,078	433,071,595
NET ASSETS			
Invested in capital assets	78,387,938	88,911,314	167,299,252
Restricted for:			
Capital projects	35,576,787	-	35,576,787
Special revenues	8,808,160	-	8,808,160
Other purposes	21,573,712	410,263	21,983,975
Unrestricted	16,924,671	65,572,689	82,497,360
Total net assets	\$ 161,271,268	\$ 154,894,266	\$ 316,165,534

The notes to the financial statements are an integral part of this statement.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the City of Durham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating. The government-wide financial statements, the statement of net assets and the statement of activities, report information on all the non-fiduciary activities of the primary government and its blended component units. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The government-wide statements have incorporated long-term and short-term information to provide a complete picture of the City's finances. They also account for all revenues and expenses connected with the fiscal year, regardless of when the cash was received or spent.

The Statement of Net Assets on page 14 includes governmental- and business-type activities. Net assets may serve over time as one useful indicator of a government's financial condition. The assets of

the City exceeded liabilities by \$316,165,534 at June 30, 2005. For the period ending June 30, 2004, the amount was \$268,492,577.

Net assets are reported in three categories: Invested in capital assets, net of related debt of \$167,299,252, restricted net assets of \$66,368,922, and unrestricted net assets \$82,497,360. At June 30, 2004, these amounts were \$129,792,239, \$45,073,093 and \$93,492,577 respectively.

Governmental Activities

Governmental activities increased the city's net assets by \$28,546,610; this accounted for approximately 66 percent of the total growth of net assets. Tax revenues (\$133,612,890) collected were approximately 7.7 percent more than taxes collected (\$124,041,388) in the prior fiscal year. Tax revenues covered approximately 87 percent of governmental activity expenses (\$153,776,595). Public safety accounted for approximately 44 percent of all expenses in governmental activities.

Business-Type Activities

The water and sewer activity is the largest of the business-type activities; it accounted for almost 57 percent (\$45,292,921) of the expenses and 71 percent (\$57,085,836) of the revenues. Total business-type expenses were \$79,844,850 and total business-type revenues were \$87,077,005.

TECHNOLOGY UPDATE: ENTERPRISE RESOURCE PLANNING SOFTWARE

The City of Durham has identified a significant opportunity for further improvements in information quality and availability. Department Directors today complain of drowning in data while thirsting for information. As projections for data storage costs continue to decline, storing the data will not be a problem. The ability to sift through the data and identify that very specific subset that is meaningful and relevant will remain a challenge. The same processes and technology that enable a pilot of a Boeing 737 to get just the right information at just the right time to make the appropriate decision will soon become pervasive within the City. One of these technologies — called Enterprise Resource Planning (ERP) software — is currently being implemented.

During June 2005, City Council approved the purchase of ERP software from MUNIS for the City of Durham. Currently, the City uses a 30-year-old computer system, and the ERP software will replace

the old mainframe-based technology. The existing system does not allow applications to interface in the same way the ERP applications will. The choice to purchase MUNIS applications followed a lengthy decision making process. The new software package will integrate traditional financial management applications (e.g., accounting, budget control, accounts payable, payroll) with non-financial applications (e.g., human resources, purchasing, inventory) through a common database standard. The new ERP system promises information integration and opportunities to reengineer processes based on best business practices. In addition, the new system will serve as the gateway and infrastructure for electronic commerce (e-Commerce) and Web-based service delivery to citizens (e-Government). The adoption of best business practices is an important component of the implementation. Over the next several years, ERP software will enable the City to improve its operating processes and better serve its customers.



Notice Under the Americans with Disabilities Act (ADA)

The City of Durham will not discriminate against qualified individuals with disabilities on the basis of disability. Anyone who requires an auxiliary aid or service for effective communications, or assistance to participate in a City program, service, or activity, should contact the office of Guillermo Rodriguez, RLA, ADA Coordinator, Voice: 919-560-4197 x237, TTY: 919-560-4809; guillermo.rodriguez@durhamnc.gov, as soon as possible but no later than 48 hours before the scheduled event.





THIS CITY OF DURHAM CITIZENS' FINANCIAL REPORT
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For more information about the City's Finance Department,
visit www.durhamnc.gov/departments/finance/ or call 560-4455.

For more information about City of Durham services,
visit the City's Web site at www.durhamnc.gov or call Durham One Call at 560-1200.

